

## FISCAL POLICIES AND PROCEDURES

### BUDGET PROCEDURES

#### Organization

The City of Redmond's accounting and budgeting systems are organized and operated on a fund basis. Funds are accounting entities used to record revenues and expenditures. Each fund is balanced, meaning total revenues equal total expenditures. The budgeted funds are grouped into six categories: General, Special Revenue, Debt Service, Capital Projects, Enterprise, and Internal Service.

The Revised Code of Washington 35A.34 allows all code cities to establish a biennial budget starting with odd numbered years.

The City of Redmond converted to a two-year budget cycle beginning with the 1997-1998 biennium.

The City establishes a 24-month budget for all funds with the exception of Local Improvement District (LID) Construction, Special Assessment Debt Service, and Agency Funds. Budgets for governmental fund types are established on a modified accrual basis. Budgets for proprietary fund types are established to approximate sources and uses of funds. While most proprietary fund revenues and expenditures are budgeted on a full accrual basis, the following adjustments are necessary to convert to a sources and uses format:

- No appropriation is made for depreciation, amortization, or accrued vacation;
- Loan proceeds are budgeted as an "other financing source"; and
- Capital assets and principal payments on bonds and capital leases are budgeted as expenditures.

The following funds are budgeted on a biennial basis:

#### **General Fund**

#### **Special Revenue Funds**

Recreation Activity  
Arts Activity  
Park Maintenance and Operations  
Special Events  
Cable Access  
Operating Grants  
Human Services Grants  
Fire Equipment Reserve  
Operating Reserves  
Advanced Life Support  
Aid Car Donation  
Real Estate Excise Tax  
Drug Enforcement  
Capital Equipment Reserve

#### **Capital Projects Funds**

Council Capital Projects  
Park Capital Projects  
Transportation Capital Projects  
Fire Capital Projects  
Police Capital Projects  
General Government Capital Projects  
Park Acquisition and Renovation  
1993 G.O. Bond – Fire

#### **Debt Service Funds**

Excess Levy  
Park Loans

#### **Enterprise Funds**

Water/Wastewater Operations and  
Maintenance

**Special Revenue Funds (continued)**

Emergency Dispatch System  
 Hotel/Motel Tax  
 Business Tax  
 Solid Waste/Recycling

**Enterprise Funds (continued)**

UPD Water/Wastewater Operations  
 Water/Wastewater Construction  
 Stormwater Management  
 Stormwater Construction  
 UPD Construction

**Internal Service Funds**

Fleet Maintenance  
 Insurance Claims and Reserve  
 Medical Self-Insurance  
 Workers' Compensation Insurance  
 Information Technology

The General Fund is the largest fund in the City and is used to account for revenues which are not designated for specific activities and programs.

Special Revenue Funds are used to segregate revenues which are restricted for specific purposes.

Debt Service Funds account for the payment of principal and interest on general long-term debt.

Capital Project Funds account for financial resources used for the purchase of land and the acquisition/construction of capital facilities and equipment.

Enterprise Funds account for operations that are financed and operated in a manner similar to private businesses, where it is the intent of the City that the costs of providing services to the general public will be recovered primarily through user fees/rates.

Internal Service Funds account for the financing of goods or services provided by one department, agency, or government unit to other departments or agencies of the City.

**Budget Process**

The biennial budget is proposed by the Mayor and adopted by the City Council with legal budgetary control normally at the fund level. However, for the 2007-08 budget spending caps were set at the departmental level. Expenditures may not exceed appropriations. Any unexpended appropriations lapse at the end of the biennium.

State law establishes the budget process and the time limits under which a budget must be developed. In even-numbered years, Redmond follows the procedures outlined below to establish its biennial budget on or before the following:

- In February, the City Council has a retreat to discuss programs and priorities for the next two years.
- No later than the first Council meeting in April, the Mayor submits a budget calendar to the City Council for approval.
- In June, preliminary revenue estimates are developed by the Finance Department and presented to the Mayor.

- In June, the Mayor meets with department heads to prepare for the upcoming budget process.
- In June, each department receives a budget information packet, and begins to prepare requests for personnel, equipment, or new programs.
- In July, a retreat is held for department heads and the Mayor to review budget issues.
- In early August, department/fund line item budgets are submitted to the Mayor.
- In August, the Mayor and Finance Department staff meet with each department to review base budgets and program requests. From these meetings and subsequent meetings held with department heads, the Mayor decides what additions or cuts will be included in the preliminary budget.
- In October, preliminary budget estimates are made available to the public.
- No later than November 1, the Mayor files the preliminary budget and a budget message with the City Clerk's office.
- The City Clerk's office publishes notice of the filing of the preliminary budget and publishes notice of public hearings.
- In November, the City Council holds a series of study sessions to review the preliminary budget to determine whether any modifications to the Mayor's recommended programs are necessary.
- Three public hearings are held prior to the adoption of the budget for the public to comment on tax rates and recommended programs, and to offer ideas for new programs.
- Prior to the beginning of the biennium, the City Council, by a majority of the members present, adopts by ordinance a final operating budget and property tax levy.
- The Line Item Budget is published and distributed during the first quarter of the new biennium.
- The Final Budget document is printed and distributed in March.

### **Budget Adjustments**

Budget adjustments are needed when:

- Total expenditures in a fund will exceed the total budget for that fund, or
- Departments request authorization to allocate money for an item or activity which was not included in the original budget.

Adjustments to the budget proceed as follows:

- The Finance Department receives a request for a budget adjustment from a department or through Council action.
- If the requested adjustment does not change the budget total for that fund, a memo is sent to the Mayor for approval/disapproval.
- If the requested adjustment changes the budget total for a fund, the Financial Planning Division verifies there are sufficient resources for the adjustment, prepares a memo outlining the nature of the adjustment, and drafts an ordinance to accomplish the change.
- The Mayor presents the ordinance to the Council for its approval.
- Once the ordinance is approved, the City Clerk's office publishes the ordinance in the City's official newspaper.

## FISCAL POLICIES AND PROCEDURES

### FISCAL POLICY

#### 1. General Financial Goals

- a. To maintain a financial base sufficient to sustain an acceptable level of municipal service which is directed to maintain the social well being and physical conditions of the city.
- b. To be able to withstand local and regional economic trauma, to adjust to changes in the service requirements of the community, and to respond to other changes as they affect the city's residents.
- c. To maintain a good credit rating in the financial community and assure taxpayers that Redmond city government is well managed financially and maintained in sound fiscal condition.

#### 2. Operating Budget Policies

- a. The base operating budget is the City's comprehensive two-year financial plan which provides for an acceptable level of services as defined by the City's goals and objectives. The base budget will be redefined every two years by incorporating newly-approved programs, inflationary increases, and other uncontrollable expenses, and will be void of non-recurring expenses of the preceding two years. The analysis and review of new programs must be initiated prior to inception of the Council's budget review process.
- b. Revenues and expenditures for the General Fund and all operating funds shall be projected for the ensuing biennium.
- c. Biennial operating budgets should provide for acceptable design, construction, maintenance and replacement of the City's capital, plant, and equipment.
- d. The City will maintain all its assets at an acceptable level to protect the city's capital investment and to minimize future maintenance and replacement costs.
- e. The City will project its equipment replacement and maintenance needs for the next several years and will update this projection every two years. From this projection a maintenance and replacement schedule will be developed and followed.
- f. All general government current operating expenditures will be paid from current revenues and cash carried over from the prior biennium. Current revenues and operating expenditures will be reviewed quarterly during the year. The city will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets. All budgetary procedures will conform to existing state and local regulations.

- g. All supplemental appropriations for programs (appropriations requested after the original budget is adopted) will only be approved after consideration of the availability of revenues.

### **3. Revenue Policies**

- a. The City will try to maintain a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of an economic downturn.
- b. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic activities, revenue estimates adopted by the City Council must be conservative.
- c. The city will estimate its biennial revenues by an objective, analytical process.
- d. The City will project revenues for the next six years and will update this projection annually. The Finance Department will annually review and make available to the Finance Committee an analysis of each potential revenue source.
- e. The City will establish all user charges at a level related to the cost of providing the service.
- f. The City will regularly revise user fees with a review by the Mayor to adjust for the effects of inflation.
- g. The City will set fees and user charges for each enterprise fund, such as Water/Wastewater and Stormwater, at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual depreciation of capital assets.
- h. The City will set fees for other user activities, such as recreational services, at a level to support the direct and appropriate indirect costs of the activity.

#### **4. Expenditure Policies**

- a. The City will maintain a level of expenditures which will provide for the public well being and safety of the residents of the community.
- b. The City will only propose operating expenditures which can be supported from ongoing operating revenues.
- c. The City will maintain expenditure categories according to state statute and administrative regulation.
- d. Services will parallel and adjust to the city's inelastic revenue sources in order to maintain the highest level of service. During periods of economic upturn, long-term expansion of core services will be limited to the anticipated increase of those sources.
- e. The City will forecast its General Fund expenditures for each of the next six years and will update this forecast every year. Expenditure forecasts will be cognizant of the elastic and inelastic structure of revenues.

#### **5. Capital Investment Budget Policies**

- a. The City will make all capital improvements in accordance with an adopted capital investment program.
- b. The capital investment program and the base operating budget will be reviewed at the same time. This will insure that the City's capital and operating needs are balanced with each other.
- c. The City will develop a multi-year plan for capital improvements including operations and maintenance costs and update it every two years. Future capital expenditures necessitated by changes in population, changes in real estate development, or changes in the economic base will be calculated and included in capital budget projections.
- d. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to Council for approval. The City will use intergovernmental assistance and other outside resources whenever possible.
- e. The City will determine the least costly financing method for all new projects.

#### **6. Short-Term Debt Policies**

- a. Short-term debt covers a period of three years or less.
- b. The City may use short-term debt to cover temporary cash flow shortages which may be caused by a delay in receipting tax revenues or issuing long-term debt.
- c. The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. All short-term borrowing will be subject to

Council approval by ordinance or resolution, and will bear interest based upon prevailing rates.

## **7. Long-Term Debt Policies**

- a. The City will confine long-term borrowing to capital improvements that cannot be financed from current revenues.
- b. Acceptable uses of bond proceeds can be viewed as items which can be capitalized and depreciated. Refunding bond issues designed to restructure currently outstanding debt is also an acceptable use of bond proceeds.
- c. Where possible, the City will use special assessment revenue, or other self-supporting bonds instead of general obligation bonds.
- d. The City will not use long-term debt for current operations.
- e. The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus.
- f. General Obligation Bond Policy
  - 1) Every project proposed for financing through general obligation debt should be accompanied by a full analysis of the future operating and maintenance costs associated with the project.
  - 2) Before general obligation bond propositions are placed before the voters, the capital project under consideration should have been included in the two preceding Capital Investment Programs. The first inclusion should include a general description of the project, its timing and financial limits. Subsequent inclusions should become increasingly specific.
  - 3) Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.
- g. Limited Tax General Obligation Bond Policies
  - 1) As a precondition to the issuance of limited tax general obligation bonds, all alternative methods of financing should have been exhausted.
  - 2) Limited tax general obligation bonds should only be issued under certain conditions:
    - A project in progress requires monies not available from alternative sources.
    - Matching fund monies are available which may be lost if not applied for in a timely manner; or
    - Catastrophic conditions.

h. Financing of Lease Purchases

Under Washington State law, the public may vote to approve bond issues for general government purposes in an amount not to exceed 2.5% of assessed valuation. Within the 2.5% limit, the Redmond City Council may approve bond issues and/or lease purchases up to 1.5% of the city's total assessed value.

**8. Reserve Fund Policies**

- a. The City will maintain General Operating Reserves at a level equal to at least 8.5% of the total General Fund budgeted revenue, excluding the beginning fund balance, development review revenue and any significant one-time revenue. A separate reserve shall be established for development review services.

These reserves shall be created and maintained to:

- 1) Provide sufficient cash flow to meet daily financial needs.
- 2) Sustain City services in the event of a catastrophic event such as a natural/manmade disaster (e.g. earthquake, windstorm, flood, terrorist attack) or a major downturn in the economy.

In general, the City shall endeavor to support ongoing operations with ongoing revenues, but may use reserves on a one-time basis to support City services pending the development of a longer term financial solution. However, in no event shall reserves be used longer than one biennium to support City operations. If reserves are used, the City will begin to replenish these reserves at the end of the biennium, if a surplus exists, but no later than the biennium following their use.

- b. Biennium surpluses in the General Fund may be used to fund one-time operations and capital expenditures, dedicated to the Capital Investment Program or placed in an economic contingency account if:
- 1) There are surplus balances remaining after all current expenditure obligations and reserve requirements are met.
  - 2) The City has made a determination that revenues for the ensuing biennium are sufficient to support budgeted General Fund operations.
- c. A surplus is defined as the difference between the actual beginning fund balance and the budgeted beginning fund balance. It consists of underexpenditures and excess revenues over and above the amounts included in the following biennial budget.
- d. The City may also maintain at its discretion an Economic Contingency to serve as a hedge against economic fluctuations, fund future one-time operational and capital needs or support City services on a one-time basis pending the development of a longer term financial solution. The source of funding for this reserve is the biennium surplus as outlined in sections 8b and 8c above. Restoration of this reserve is at the City's discretion.



- e. The City will maintain a building permit reserve in the Operating Reserves Fund to provide for completion of building permit responsibilities in the event of a decline in development activity. This reserve will be equal to 25% of the annual building inspection and review costs.
- f. The City will maintain operating reserves in the following funds: 15% (55 days) for the Water/Wastewater Operations and Maintenance Funds, not including Metro Wastewater Treatment expenses, which shall have a reserve requirement of 2%, 5% for the Stormwater Management Fund and 12% for the Solid Waste/ Recycling Fund. This operating reserve shall be created and maintained to provide sufficient cash flow to meet daily financial needs and will be based upon total operating expenses. For budgeting purposes, operating expenses will be calculated upon the funds' total expense budgets excluding ending fund balances, capital purchases, and the current year's portion of principal paid on outstanding debt.
- g. A depreciation reserve shall be established to replace utility capital, plan, and equipment in the following funds: Water/Wastewater Operations and Maintenance and Stormwater Management. This reserve will be adjusted biennially by the most current year's depreciation expense less bond reserves, principal paid on outstanding debt, and purchases of replacement capital.
- h. Bond reserves shall be created and maintained by the Water/ Wastewater and Stormwater Utilities in accordance with the provisions set forth in the bond covenants.
- i. The City shall additionally maintain the following Equipment Replacement Reserve Funds:
  - 1) Fleet Maintenance Reserve;
  - 2) Fire Equipment Reserve; and
  - 3) Capital Equipment Reserve for general asset replacement.

The Equipment Reserve Funds will be maintained at a level sufficient to meet scheduled equipment replacement so as to sustain an acceptable level of municipal services and prevent a physical deterioration of city assets.

- j. The City shall also maintain Reserve Funds as follows:
  - 1) All statutorily required reserve funds to guarantee debt service; and
  - 2) A vacation accrual reserve.

No reserve shall be established for sick leave. One-fourth of accrued sick leave is payable only upon retirement, and is not considered material.

## **9. Investment Policies**

The Finance Director will annually submit an investment policy to the City Council for review and adoption.

## **10. Special Revenue Policies**

- a. The City will establish and maintain Special Revenue Funds which will be used to account for the proceeds of specific revenue sources to finance specified activities which are required by statute, ordinance, resolution, or executive order.
- b. Special Revenue Funds having biennial operating budgets will be reviewed by the City during the budget process.

## **11. Accounting, Auditing, and Financial Reporting Policies**

- a. The City will establish and maintain a high standard of accounting practices.
- b. The accounting system will maintain records on a basis consistent with accepted standards for local government accounting and the State of Washington Budgeting, Accounting, and Reporting Systems.
- c. Regular monthly and annual financial reports will present a summary of financial activity by major types of funds.
- d. Where possible, the reporting system will also provide monthly information on the total cost of specific services by type of expenditure and, if necessary, by fund.
- e. A fixed asset system will be maintained to identify all City assets and their condition.
- f. The State Auditor's Office will audit City records annually and will issue a financial opinion.

## **12. Budget Calendar**

In order to facilitate and implement the budget process, the Mayor will provide the Council with a biennial budget calendar at the first regular Council meeting in March in every even year.